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COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 8, 1999

PETITION OF

CASE NO. PUA980048

AQUASOURCE UTILITY, INC.

For approval to acquire control of  
Lake Monticello Service Company  
and approval of affiliate transactions

ORDER GRANTING APPROVAL

On December 11, 1998, AquaSource Utility, Inc., (“AquaSource”, the “Company”) filed a petition under the Utility Transfers Act requesting approval for AquaSource to acquire from Lake Monticello Owner’s Association (“LMOA”) all the stock of Lake Monticello Service Company (“LMSC”). AquaSource also petitioned, under the Affiliates Act, for approval of affiliate transactions with LMSC.

AquaSource is a wholly-owned subsidiary of AquaSource, Inc., which is in turn a wholly-owned subsidiary of DQE, Inc., a publicly traded utility holding company. In addition to water and wastewater utilities, AquaSource and AquaSource, Inc., also own non-regulated water and wastewater related businesses such as construction and

engineering companies, water and wastewater system leasing and fabrication businesses, and contract operation services for other owners of water and wastewater facilities.

AquaSource and AquaSource, Inc., (the “Companies”) received approval from their Boards to invest over \$200 million in water and wastewater utility companies. The Companies provide potable water and wastewater services to more than 300,000 customers and are currently negotiating to acquire numerous additional water utilities across the country, including Virginia. AquaSource is headquartered in Houston, Texas and has several other offices in various areas of the country.

DQE, Inc., the parent company of AquaSource, Inc., is a Pennsylvania based energy service company and parent of Duquesne Light Company. DQE, Inc., has assets of more than \$4.6 billion and annual revenues in excess of \$1.2 billion. AquaSource and AquaSource, Inc., report their financial data on a consolidated basis with DQE, Inc.

Lake Monticello Owner’s Association is a Virginia corporation, which is the property owners’ association for the community served by Lake Monticello Service Company. LMOA currently owns all the stock of LMSC. LMSC is a public utility providing water and waste water services to the households in the Lake Monticello community in Fluvanna County, Virginia.

AquaSource proposes to purchase, and the LMOA proposes to sell to AquaSource all of the stock of LMSC. As stated in the petition, upon consummation of the transaction, LMSC will become a wholly-owned subsidiary of AquaSource and will continue to operate as a separate Virginia utility company. AquaSource will retain the employees of LMSC.

The Company states, in its petition, that in order to take advantage of economies of scale, AquaSource or AquaSource, Inc., may provide certain services to LMSC. Pursuant to the proposed arrangement, in order to cover LMSC's employees under the same benefit programs covering other AquaSource personnel, AquaSource will provide administrative and personnel services consisting of payroll administration and administration of employee benefits programs and insurance programs. Additionally, AquaSource states that the proposed action will make AquaSource's employee benefits programs available to LMSC's employees with no impact on LMSC's customers as services will be provided at aggregate cost.

As agreed by AquaSource and the LMOA, AquaSource will pay the LMOA \$8.2 million in cash for the LMSC stock, as adjusted pursuant to the Stock Purchase Agreement. AquaSource represents that adequate service at just and reasonable rates will not be impaired or jeopardized by the proposed transfer of control of LMSC. AquaSource further represents that it plans to provide system improvements without change in the current water rates to LMSC's customers. In addition, the Company states that the acquisition will benefit LMSC's customers without an increase in rates until at least 2002. AquaSource's mission, as stated in its petition, is to:

- 1) provide safe, clean, reasonably priced drinking water to its customers;
- 2) achieve high levels of customer service and satisfaction; and
- 3) keep all of its water and wastewater systems in regulatory compliance.

AquaSource represents that, by LMSC operating as a part of the AquaSource family of companies, economies of scale will help maintain or lower future operating

expenses, thereby mitigating the need for future rate increases. AquaSource further represents that, as part of a larger company with a publicly-traded parent, LMSC will have access to the less expensive, public capital markets to finance future capital improvements to its plant and equipment, thereby reducing the need for potential future rate increases.

As represented in Article VII of the Stock Purchase Agreement, neither AquaSource, its successors, assigns nor any person or entity affiliated with AquaSource or its successors or assigns will, at any time, seek any increase in rates, fees or charges of LMSC in order to recover all or any portion of the amount of the consideration paid (\$8.2 million) in excess of the rate base of LMSC. AquaSource will not seek such recovery through either an acquisition adjustment to rate base or other types of rate making adjustments that increase the rate base to reflect the amount of consideration in excess of the rate base as of closing. The rate base of LMSC shall exclude account numbers, 114 and 115, which relate to acquisition adjustments and their amortization, respectively.

The Company further represents that AquaSource proposes to offset any need to increase rates, due to increased investment directly attributable to the acquisition, against expense reductions it expects to achieve in LMSC's operations. AquaSource also represents that, to the extent AquaSource is able to achieve and retain expense reductions resulting from operating efficiencies achieved over time, ratepayers will be insulated from any need to increase rates.

THE COMMISSION, upon consideration of the petition and representations of the Company and having been advised by its Staff, is of the opinion and finds that the above-described transfer of control will neither impair nor jeopardize the provision of

adequate service to the public at just and reasonable rates and that the affiliate agreement is in the public interest, and should, therefore, be approved. Accordingly,

IT IS ORDERED THAT:

1) Pursuant to §§ 56-88.1 and 56-90 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to acquire control of Lake Monticello Service Company under the terms and conditions and at the price of \$8.2 million, as adjusted pursuant to the Stock Purchase Agreement described herein.

2) Pursuant to § 56-77 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to provide services to Lake Monticello Service Company under the terms and conditions described herein.

3) The approval granted herein shall have no ratemaking implications.

4) Should there be any changes in the terms and conditions of the affiliate agreement between AquaSource and LMSC from those contained herein, Commission approval shall be required for such changes.

5) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not such affiliate is regulated by the Commission pursuant to § 56-79 of the Code of Virginia.

6) Any excess earnings resulting from operational efficiencies or cost reductions shall be at issue in any filings or proceedings addressing rates.

7) The approval granted herein shall in no way be deemed to include the recovery of any portion of the consideration paid in excess of the rate base, at the time of closing, through either an acquisition adjustment or any other type of adjustment for ratemaking purposes.

8) LMSC shall file a Report of Action with the Commission on or before June 1, 1999. Such report shall contain the date of transfer, the sales price, and all accounting entries reflecting the transfer.

9) LMSC shall file an Annual Report of Affiliate Transactions with the Director of Public Utility Accounting of the Commission by no later than May 1 of each year beginning May 1, 1999, subject to extension by the Director of Public Utility Accounting of the Commission. Information to be included in the Report is as follows: 1) affiliate's name; 2) description of each affiliate arrangement/agreement; 3) dates of each affiliate arrangement/agreement; and 4) total dollar amount of each affiliate arrangement/agreement. The report shall include all agreements with affiliates regardless of amount involved and shall supersede all other affiliate reporting requirements previously ordered.

10) If General Rate Case Filings are not based on a calendar year, then LMSC shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.

11) There appearing nothing further to be done in this matter, the same be, and it hereby is, dismissed.